

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

THE GENERAL HOSPITAL)
CORPORATION, et al,)
Plaintiffs,)
)
vs.) CA No. 18-11360-IT
)
)
ESOTERIX GENETIC LABORATORIES,)
LLC, et al,)
Defendants.)

BEFORE: THE HONORABLE INDIRA TALWANI

HEARING ON MOTION TO DISMISS AND MOTION FOR SUMMARY JUDGMENT

John Joseph Moakley United States Courthouse
Courtroom No. 9
One Courthouse Way
Boston, MA 02210
Wednesday, January 23, 2019
11:02 a.m.

Cheryl Dahlstrom, RMR, CRR
Official Court Reporter
John Joseph Moakley United States Courthouse
One Courthouse Way, Room 3510
Boston, MA 02210
Mechanical Steno - Transcript by Computer

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1 P R O C E E D I N G S

2 THE CLERK: U.S. District Court is now in session.
3 The Honorable Judge Indira Talwani presiding. This is Case No.
4 18-cv-11360, The General Hospital, et al v. Esoterix Genetic
5 Laboratories, LLC, et al. Will counsel please identify
6 themselves for the record.

7 MR. NASH: Good morning, your Honor. Doug Nash from
8 Barclay Damon, on behalf of the plaintiffs.

9 THE COURT: Good morning.

11:03 10 MS. MARCOTTE: Good morning, your Honor. Carolyn
11 Marcotte from Barclay Damon, on behalf of the plaintiffs as
12 well.

13 THE COURT: Good morning.

14 MR. STEINER: Good morning, your Honor. Robert
15 Steiner from Kelley Drye, on behalf of the defendants.

16 THE COURT: Good morning.

17 MS. METZINGER: Good morning, your Honor. Jaclyn
18 Metzinger, also from Kelley Drye, on behalf of defendants.

19 THE COURT: Good morning.

11:03 20 MR. HOWE: Your Honor, Christopher Howe, also on
21 behalf of the defendants.

22 THE COURT: Good morning. So I have the cross-motions
23 -- well, motion to dismiss and a cross-motion for partial
24 summary judgment. And I have the redacted and sealed versions
25 of the documents. I appreciate the filings here where there is

1 a fair bit that is redacted that I never have to look at, and
2 we don't have to worry about that staying off of the public
3 docket. And so what it is on the public docket has only very
4 small amounts that are essentially sealed that I -- has been
5 called to my attention.

6 So what I would like to start with is to try to make
7 sure I understand what and how the original -- or original
8 amended license agreement functioned and then talk about what
9 happened once the -- how the settlement language then addresses
11:04 10 that. And I probably will ask my questions going back and
11 forth here rather than by a formal presentation of one side
12 versus the other.

13 I'm realizing I've left my regular glasses down in the
14 robing room, but -- thank you.

15 The royalty provision of the license agreement, I
16 think is where I would like to start and make sure I understand
17 what the parties contend -- how the parties contend the royalty
18 provision works. So --

19 MR. STEINER: Your Honor, would you like me at the
11:05 20 podium or --

21 THE COURT: Whatever you're more comfortable with.

22 MR. STEINER: So I think the issue with the royalty
23 provisions in the license agreement obviously is very
24 intertwined with the language of the release that brings us
25 here today. And if you look at 4.5 in the license agreement,

1 it talks about how royalties accrue. And it says that
2 royalties begin to accrue with the first commercial sale of a
3 test.

4 THE COURT: So let me ask you a question. Your client
5 sells a test. Are you talking about when the test is invoiced,
6 or are you talking about when the money is received for the
7 test?

8 MR. STEINER: Your Honor, I believe that there's a
9 provision -- and I think it's in 1.1 -- which talks about net
11:06 10 sales. If you could just give me a moment.

11 THE COURT: It's 1.22.

12 MR. STEINER: Thank you. It's 1.22. It says, in (C),
13 it talks about net sales shall occur every time the company or
14 any affiliate of the company actually receives the amount
15 payable by the purchaser of a process or product sold by the
16 company. So under the plain language of 1.22(c), it would
17 appear that a royalty obligation accrues at the time that an
18 invoice is paid.

19 THE COURT: Okay. So let's start with that because
11:07 20 you kept -- throughout your brief you talk about when the test
21 is performed, but that's really not the question. The question
22 is when you get money.

23 MR. STEINER: Yeah. The issue is when you get money.
24 Sorry, your Honor. I'm just looking for my notes here.

25 THE COURT: It's not when the test is performed. And

1 then it's when you get money; and when you get money, in the
2 normal course, if you were going to set aside the royalty that
3 you were going to have to then pay to the plaintiffs here, in
4 your view, if you were going to set it aside, how would you do
5 that?

6 MR. STEINER: Well, you set aside the percentage of
7 the invoice, the amount, and it's accrued.

8 THE COURT: Okay. You just jumped a step. You set
9 aside a percentage. What is that percentage? What do you
10 mean?

11 MR. STEINER: Your Honor, the amount of the percentage
12 is obviously redacted in the documents.

13 THE COURT: No, no. I'm not asking for the amount,
14 but it isn't a single amount in the contract. That's not what
15 the royalty rate is.

16 MR. STEINER: No. But the royalty rate is applied to
17 each commercial sale, and then what occurs, your Honor --

18 THE COURT: But it isn't. So the way you're talking
19 about it, you know, I have X rate, X percentage, and I'm going
20 to apply that. And if I wanted to go and take that money and
21 put it in the bank until the reporting period, I could do that.
22 But I don't think you have in the contract a rate at the date
23 that you've gotten the money. I don't think you know what your
24 royalty is until the reporting period is over.

25 MR. STEINER: Your Honor, honestly, I'm not -- I don't

1 have an answer for you on that.

2 THE COURT: So let me drill down and ask you my
3 question a little more specifically. The 4.5 doesn't say a
4 royalty is a percentage of the sale. It says a royalty is a
5 product of a royalty rate times a contract net sale. And a
6 royalty rate, we know that is an average reimbursement for the
7 prior reporting period. And we know the contract net sale is
8 the average reimbursement times -- from the past period, times
9 the number of processes invoiced in this period. So until the
11:10 10 period is over, how do you know what the royalty is?

11 MR. STEINER: Your Honor, even if you didn't know,
12 even if you didn't know what the exact amount of the royalty
13 was, you would still have made those sales; and based on the
14 formula, you would apply those sales, those amounts of those
15 sales, to whatever the rate comes -- comes out to based on the
16 terms of the agreement.

17 THE COURT: But work with me here a little bit slowly
18 because, if I'm off, you need to figure out where I'm off and
19 correct me. As I read this, royalty is not defined in the
11:11 20 agreement as a percentage of amounts received. Royalty is
21 defined in this incredibly complicated way, in my view, which
22 is that a royalty is a product; and it's really a product of
23 two things, and one is a product of another.

24 And so a royalty due -- it comes down to average
25 reimbursement for prior reporting period. And there's some

1 minimum there, but I take it that's not at issue. Average
2 reimbursement for prior reporting period times average
3 reimbursement of the past period times the number of processes
4 invoiced in this period.

5 So I don't understand from -- you keep saying in your
6 brief that it -- the claim arises when the product is --

7 MR. STEINER: No. Actually, we don't talk about
8 claims at all, your Honor. The plaintiff talks about claims,
9 and they talk about claims because the only way that they're
11:12 10 successful in narrowing the scope of the release --

11 THE COURT: Okay. The obligation then or whatever --

12 MR. STEINER: The obligation -- I apologize.

13 THE COURT: The obligation or whatever broader word
14 you want to use. That wasn't the focus of my sentence. The
15 focus of any sentence is you're saying something arises, and
16 you were saying in your brief it arises when the test is
17 conducted. And now you've conceded it arises when you get
18 paid. That's what you're saying happens.

19 And I'm saying, when I read this, you actually are
11:12 20 paying a royalty that's calculated on this formula of a net
21 contract sale, which is calculated on an average reimbursement
22 rate times your invoices. So if you've invoiced a thousand
23 tests and so far in this six-month period you've only gotten
24 paid for ten of those thousand but last six-month period you
25 got paid for 95 percent of everything you invoiced, under this,

1 the royalty is the invoice -- is an amount based on 95 percent
2 of what you've invoiced, not on the cost that you've gotten.

3 So I don't understand, since royalty is defined as
4 this not intuitive number but it's this complicated process
5 that requires as one of the factors the number of processes
6 invoiced for the period, how you can say to me that the
7 obligation arises as you go.

8 MR. STEINER: Well, your Honor, concededly, the
9 provision on calculation is somewhat complex, and it's not an
10 issue that either side briefed. And apologize if I'm not as
11 familiar with how the calculation works as perhaps I should be.

12 I think the point, though, remains the same, which is
13 that the genesis of the obligation -- and this is reinforced in
14 the contract in several places -- is based on that commercial
15 sale. And whether you want to call it the sale or the -- or
16 the amount that is actually paid, when it ultimately is paid,
17 the obligation does not accrue at the time of the termination
18 of a reporting period. A claim may accrue at that point in
19 time if it's not paid, but it certainly is a liability. It
20 certainly is a debt. It's an obligation.

21 And if you look at -- I know we briefed this, and I
22 know your Honor has read the briefs. If you look at the
23 termination provision, you know, what happens if you terminate
24 the agreement, you automatically -- payment has to happen at
25 that point in time.

1 In addition, your Honor, 10. -- sorry, 4.5(f), if you
2 look at 4.5(f), it further explains that the obligation to pay
3 the royalty, if you look at -- I think it's 4.5(f)(iii). It
4 says, "Except as specified in 4.5(g) below, no royalty shall
5 accrue on the transfer without charge of processes or products
6 by company and its affiliates."

7 So the agreement throughout contemplates the idea that
8 the obligation to pay the royalty, whatever that amount is,
9 whatever that amount is, the obligation to pay the royalty
11:15 10 accrues at the time of the sale or the payment of the invoice,
11 as your Honor has stated it.

12 So I don't think you need -- the point that I'm trying
13 to make, your Honor, is I don't think you necessarily need to
14 know the exact amount.

15 THE COURT: I'm not concerned about the amount. I'm
16 concerned about the parties' concept of what royalty means.
17 You're saying to me, essentially, a royalty is a percentage of
18 an amount we receive. And I'm saying to you, that's not what I
19 see in the contract. What I'm seeing here is that the royalty
11:16 20 is an amount essentially based on an average recovery or some
21 kind of an amount of -- I mean, it's this product of various
22 things, which aren't a dollar amount. I'm not looking at any
23 of the dollar amounts or percentage amounts. I'm saying it's a
24 product of some concepts.

25 To just ignore and say, well, I don't know what those

1 concepts -- I don't need to worry about those concepts, I'm
2 saying, if those concepts include the contemplation of a total
3 number of events within a period, how can you say to me that it
4 arises before you have that period? Now, that period may be
5 shorter than six months. If the contract terminates, I would
6 agree with you that the period then is a one-month period or a
7 two-month period. I'm not sure that's agreeing with you. I
8 would suggest that if it terminates earlier it's a shorter
9 period.

11:17 10 But there's nothing that suggests here, if the -- to
11 me that would suggest that if the rate -- that if the royalty
12 is defined with a reference to a total number of things that
13 happen within a period, how I can just ignore that and say,
14 well, but we don't really need to pay attention to that.

15 MR. STEINER: But, your Honor, I think that even if I
16 -- you know, I understand your point, but I don't think that
17 the release, which is what we're talking about here -- I don't
18 think you need to parse the language in the release to that
19 level of detail because the language in the release, your
11:18 20 Honor, is very broad, and it doesn't require you to know a
21 specific amount. It doesn't require you to know -- I
22 understand you're not focused on the amount. But the language
23 -- the language, your Honor, in the release is the type of
24 broad general release that you see in litigations all the time,
25 in those litigations where people, you know, are maybe

1 uncertain as to what their rights are, maybe uncertain as to
2 what claims they may or may not have, what their obligations
3 may be.

4 And so when you draft a release of this type, which
5 includes the type of, you know, broad and expansive language,
6 which I'll -- which, if you look at it, goes well beyond, you
7 know, well beyond claims, well beyond the ability to calculate
8 a specific amount, and talks about things like liabilities and
9 obligations and debts.

11:19 10 THE COURT: But the word I have to determine here -- I
11 agree with you that it isn't just a claim, but I don't think
12 that's the issue. I think the issue is what does arising --
13 that has arisen. And I need to determine whether something has
14 arisen.

15 And I would -- I think I would agree with you that if
16 this contract -- if you said to the plaintiffs, Here's a
17 settlement agreement, and we are terminating the license
18 agreement effective on this date, then I think your
19 construction might work because all of those amounts would then
11:19 20 have been immediately due upon the termination, and they would
21 have arisen there. And it would have -- essentially, by
22 terminating the license agreement, you would have had the
23 acceleration of the license agreement, which happens when you
24 terminate it, that would make these things due.

25 But I think the question I need to focus on -- I

1 completely agree with you that it is broader than the word
2 "claim." It's all everything that you already have, whichever
3 word you want to use as to obligations that are owed to you.
4 But you still have to have that it has at this point arisen as
5 of May 27th.

6 MR. STEINER: June 27th, your Honor.

7 THE COURT: June 27th.

8 MR. STEINER: But the liability -- but it's not just
9 that word "arisen" in isolation, you know. The word "arisen,"
10 as it's included in the release, talks about liabilities; it
11 talks about obligations; it talks about promises; it talks
12 about rights and demands and debts.

13 THE COURT: All of those words are modified by
14 "arise." No?

15 MR. STEINER: No. In fact, I think, the way I would
16 read it, your Honor, is it says, "As of the court's granting
17 the motion to vacate," and then it goes on to say -- you know,
18 it talks about the things I just talk about, "which the
19 hospital releasees may have, own, hold" -- "may have, own, hold
20 or claim to them." They don't even have to necessarily have
21 them. They may have them.

22 THE COURT: Right, "may have arisen." But "may have
23 arisen" modifies every single word.

24 MR. STEINER: "Relating to, arising from, the act or
25 omissions that were stated in" -- "stated in, arose out of, or

1 which may have arisen out." "Stated in, arose out" -- this is
2 the type of expansive language that -- you know, I recognize
3 the technical point, your Honor, but, again -- and I don't mean
4 to be repetitive, those -- the ability to calculate, the
5 obligation to pay the amount, is derived from the receipt of
6 invoiced tests and the receipt of those -- of those monies, as
7 your Honor is construing that clause. So the fact that you
8 can't necessarily calculate with certitude until the end of the
9 reporting period doesn't make it any less of an obligation.

11:22 10 THE COURT: I think you're -- I think the disconnect
11 here for us is that you're saying this is sort of a detail of
12 calculation, and I'm saying that the parties actually
13 substituted the actual amounts received, and instead of saying
14 we want to know -- they could have negotiated, for the amounts
15 you actually received, give us a percentage. Instead, they
16 negotiated, appears to be, a reimbursement that is based on
17 your rate of reimbursement from the prior year and your number
18 of invoices from this year.

19 Am I -- this isn't something that you argued, so let
11:23 20 me turn to plaintiffs. Am I off in my construction of this, or
21 is that what you were trying to flag in the reply brief?

22 MR. NASH: No. I think I recognize this issue wasn't
23 briefed to the extent it should have been. It came up in the
24 context of their argument that each royalty is on a --

25 THE COURT: You know what? I'm going to let you stop

1 because he's going to need to respond to you.

2 MR. STEINER: I apologize.

3 THE COURT: That's okay.

4 MR. STEINER: My client is the expert in the license
5 agreement, and I was attempting to get a little bit of clarity
6 from her.

7 THE COURT: I'm going to let your brother respond for
8 a minute, and then we'll come back to you.

9 MR. NASH: Your Honor, it's not a PowerPoint in the
11:23 10 sense that it outlines my argument, but I have a few
11 demonstratives. I have 4.5 and another provision that I think,
12 bears on this. Could we turn the monitor on?

13 THE COURT: We could do that.

14 MR. NASH: I anticipated this issue coming up, your
15 Honor. Is it on your screen?

16 THE COURT: It is, but --

17 MR. NASH: Is it hard to read?

18 THE COURT: It is. I think I do better just on my own
19 thing. We're looking at 4.5?

11:24 20 MR. NASH: Your Honor, may I approach? I have it in
21 hard copy.

22 THE COURT: Sure.

23 MR. NASH: I showed these to the defendants yesterday,
24 your Honor.

25 So if you -- if we look at 4.5(a), your Honor is

1 exactly right. The agreement and the conception of a royalty
2 under 4.5(a) is looked at in the aggregate, and it's looked at
3 -- it's a look back. What happened after the reporting period
4 ended. You can't calculate it under the terms of 4.5(a) until
5 the reporting period has ended, which is why, in 4.5(e), the
6 defendants are given 45 days to actually make the payment
7 because there's some effort involved in following that
8 complicated formula.

9 So your Honor's exactly right, and this does directly
10 bear on the question of when did the promise, the obligation,
11 the right, when did it arise? Well, the obligation arose
12 after. By the express terms of 4.5(e), it arose 45 days after
13 the close of the reporting period, which was August 15th.
14 That's when the payment should have been made under the terms
15 of the agreement. That's when it arose.

16 There was no promise to make it before that. There
17 was no obligation to make it before that. There was no right
18 for us to demand that it be made before that. Whatever words
19 you want to pick out of that release language that is modified,
11:26 20 your Honor is correct, by "may have arisen," whatever words you
21 want to pick out of that, that didn't arise before the
22 effective date of the agreement.

23 The other thing that I think is lost in the briefing,
24 and I wanted to bring your Honor's attention to it, is actually
25 the next page, which is the royalty actually comes from two

1 different places. The royalty that's due on August 15th comes
2 from both 4.5(a), which has to do with when the defendants
3 themselves sell a kit, test; and 4.6, which is when the
4 defendants receive payment from a sublicensee, which happens --
5 and it also, just like 4.5, 4.6 treats the sublicensee payments
6 in the aggregate. It's not a pay as you go. It's a pay once.
7 The obligation arises at the end of the period. You take a
8 look back and you see how much money did you receive during the
9 reporting period in aggregate. And then you have 45 days at
11:27 10 that point to make the payment. So I think your Honor is
11 exactly on point.

12 THE COURT: But what you just said there is that the
13 point that I'm making here about not having the payment tied to
14 the actual sale but instead tied to a calculated net sale based
15 on a number of invoices versus prior track records on payment,
16 that rule doesn't apply to payment of the sublicenses.

17 MR. NASH: No, but 4.56 [sic] is based on the
18 aggregate amount. It's the same -- there's not a complicated
19 formula in 4.6. 4.5, what you end up with is you follow this
11:28 20 complicated formula; you end up with an aggregate amount. 4.6,
21 the math is easier. They're going to get certain number of
22 payments during the reporting period.

23 THE COURT: With regard to the first question I asked
24 your brother, which was -- or the first series of questions, as
25 transactions are happening, can you set aside a percentage of

1 that and say that's what I'm going to have to pay to the
2 plaintiffs? The answer is yes for the sublicenses even if it's
3 not correct for the sale of the product.

4 MR. NASH: But there's nothing in the record on either
5 motion that suggests they received any money from sublicenses
6 before the effective date. There's nothing in that record.
7 And had they, could they have calculated that amount? They
8 could have. But one of the things, your Honor, that I think is
9 important is what they told us in one of the letters that led
10 up to --

11 THE COURT: I don't want to get to that yet.

12 MR. NASH: Okay.

13 THE COURT: I'd like to -- both sides have asserted to
14 me that you think that the language is unambiguous, and,
15 therefore, I don't get to the evidence behind it or in the
16 negotiations. And just on this point, for your cross-motion
17 for partial summary judgment, if I get to the point of saying I
18 think the language is ambiguous, are we set up for addressing
19 those ambiguities on summary judgment? I don't think we're
20 there yet because your summary judgment record is based
21 entirely -- it's not based on these letters.

22 MR. NASH: Correct.

23 THE COURT: Your summary judgment record is based on
24 the claim being unambiguous.

25 MR. NASH: If you determine that the release language

1 is ambiguous, then I think denial of the summary judgment
2 motion would be appropriate at this point.

3 THE COURT: Okay. So for today, I don't think -- as I
4 am addressing the motions here, I don't think I get to the
5 question of these underlying -- certainly not on your motion,
6 on the cross-motion for summary judgment, I don't get to those
7 underlying letters.

8 MR. NASH: With one exception, your Honor. It has not
9 so much to do with the summary judgment motion but how you
11:30 10 started the line of questioning, which is, how do the parties
11 conceive of the royalty obligation? And the only point I
12 wanted to make is that they have told us -- and this was in the
13 complaint attached to -- in a letter attached to the
14 complaint -- they don't keep records on a daily basis. They
15 certainly don't keep them on a per-sale basis or per-payment
16 basis. The most granule they get is on a monthly basis.

17 And so this idea that the conception of this royalty
18 obligation under 4.5 or even 4.6 is this sort of running tally
19 of what you owe the plaintiffs. It's not how, in practice,
11:31 20 they actually do business, which is, frankly, consistent with
21 the language of the agreement which treats it all in the
22 aggregate.

23 THE COURT: Okay. I don't want to get into those -- I
24 don't think I need to get into those facts on your motion for
25 summary judgment. And to the extent I need to get to them on

1 the motion to dismiss, I'm going to still put that off for
2 right now. I'd like to stay with the contract documents.

3 MR. STEINER: Your Honor, again, I recognize that this
4 issue that you've raised was not one, I think, that either side
5 breached -- I'm sorry, briefed, so I'm a little bit on my heels
6 on kind of construing the specific provision.

7 My client tells me -- and I would have to walk through
8 the language of the agreement -- that the way the parties
9 operated was that they paid -- we paid a percent, a straight
10 percent, based on all of the invoices we received. So I'm not
11 quite sure why it's reflected in the agreement as this kind of
12 complicated formula, and perhaps, standing here today, again,
13 on my heels, I'm missing something. But what my client tells
14 me is that it is calculable on a daily or monthly basis based
15 on monies that are received, and --

16 THE COURT: This gets to a related part of the dispute
17 here, which is, putting aside -- putting aside for one moment
18 monies due and just talking about the auditing, you've taken
19 the position in your papers that, since we paid all the money,
20 we don't have to give you any records of the sales. And I come
21 back to this same provision. If the rates for the following
22 six-month period are determined based on the prior six-month
23 period's numbers, how do you get away with saying I don't have
24 to give you any numbers for that for -- how would you calculate
25 the next period?

1 MR. STEINER: Your Honor, what I'm understanding,
2 again, and I'm -- again, just apologize for being on my
3 heels -- is that there other amendments to this contract that
4 are actually not in the record that explain this percentage
5 issue. And so to the extent that this is an issue of concern,
6 I realize now we have this -- this could be the fourth or the
7 third false start in trying to kind of argue this thing. I
8 would like an opportunity to provide those amendments or at
9 least look at those amendments because if what your Honor is
11:34 10 saying is, look, I think there's either an ambiguity here or
11 perhaps the release doesn't cover the royalty payments based on
12 this formulaic calculation, rather than have you reach that
13 conclusion, I would certainly like an opportunity to go and
14 look at those other amendments which are not part of the
15 record. I think they weren't part of the record because,
16 frankly, we didn't foresee this being an issue, either side
17 foreseeing it being an issue. But there is a third or fourth
18 amendment which lays out a calculation methodology which is
19 based on a percentage.

11:34 20 MR. NASH: They're in the record. In fact, this slide
21 that I have up there, your Honor, and that I handed you in hard
22 copy is the Section 4.5 as amended.

23 THE COURT: Yeah. The only change -- I went back and
24 forth to see what the amendment was. I didn't think that the
25 amendment -- it got rid of a "couldn't go over amount" or

1 under, but I didn't see it as actually --

2 MR. NASH: The change had to do with the floor rate,
3 your Honor.

4 THE COURT: Yeah, exactly.

5 MR. NASH: It had to do with the floor.

6 THE COURT: I do think this is -- it may not be
7 exactly as it was briefed. I think it's hinted at in the
8 plaintiffs' papers. And I found, as I was reading the
9 defendants' papers, that it seemed to me, the way you were
11:35 10 describing the contract, seemed very different than the way I
11 was reading it. I do think it would be helpful to have you
12 address these concerns, and I will give you that opportunity.
13 I don't think anything is gained. There's enough at stake here
14 that if I've got it wrong you're going to be asking for
15 reconsideration and everything else. So I would like to try
16 and get it right. So let me frame my questions a little bit
17 more to you, and then maybe we set something up for early next
18 week and continue this conversation.

19 I had the same reaction on your response about not
11:36 20 having to allow for an audit or give any details as to what
21 happened. And your briefing essentially says, We don't owe any
22 money; and since we don't owe any money, we don't have to tell
23 you these numbers. And my response to that is: If your
24 formula for reimbursement is -- uses the numbers -- certain
25 numbers from the prior period, then even if you were right

1 about having released the payments, I don't see how that gets
2 you to release the audit, that the audit -- the notion that the
3 audit is based only on this -- that the purpose of the audit is
4 for what we pay you now; and since we've paid you enough, we
5 don't have to pay you anything, seems to me ignores this whole
6 contractual scheme which looks to transactions from the prior
7 six-month period.

8 MR. STEINER: Two things, your Honor. One is, I don't
9 believe that the amendment that Mr. Nash is referring to is the
11:37 10 final amendment. I don't believe that that is the final
11 amendment. Secondly, your Honor -- and, again, I don't want to
12 go too far afield here, but assuming that my understanding is
13 correct and that it is a straight percentage of the amount of
14 sales made, then one ties to the other because your Honor's
15 point is, well, you need to go back and go through this whole
16 scheme to figure out what would be paid for over those three
17 days. And if I'm right, your Honor, then that concern, I
18 think, falls away.

19 THE COURT: I agree that these are related, and I'm
11:38 20 simply using this not to further put you on the spot right now
21 but to give you sort of the various points where I'm seeing a
22 concern in your reading of the contract that would be helpful
23 if we're all on the same page of what we're looking at and how
24 I'm getting to the language I'm getting at.

25 So the first point is that I think that the

1 calculation of a royalty is a calculation that requires knowing
2 your numbers for the whole reporting period before a royalty
3 can be calculated. My second related point, which is, if I'm
4 correct on that, then as to the audit, even if you had a
5 settlement agreement that said here's all the money, they would
6 still need the data from that six-month period in order to
7 calculate the next period's rate. And then a third point,
8 which is slightly different, turns to your payment of the -- or
9 nonpayment of the three days at the end of the period. And you
11:39 10 say those three days at the end of the period is included in
11 the annual license fee. But the language about the annual
12 license fee says that it -- you apply it to royalties
13 subsequently due in the same calendar year, which my read of
14 that would be that means royalties that are due -- or that are
15 subsequently incurred in the same calendar year.

16 MR. NASH: I have it on the screen, your Honor.

17 MR. STEINER: I can tell you, your Honor, that -- what
18 was done in practice because if you look at this provision -- I
19 think, actually, this provision is ambiguous. This provision
11:40 20 is ambiguous because, if you read it literally, you would never
21 be able to really take a credit for those -- for the first six
22 months of the reporting period. You would never be able to
23 take a credit. The reason you couldn't do it is because it has
24 -- the credit has to be taken against royalties due from the
25 company in that calendar reporting period.

1 And so what the parties did, what they did in practice
2 -- and, again, I don't know that -- to my mind, this is not
3 something that actually impact the results, but the parties did
4 in practice, was that that credit was taken based on sales that
5 had made -- been made to date.

6 THE COURT: But doesn't that go directly against your
7 argument?

8 MR. STEINER: I don't believe --

9 THE COURT: Isn't the point then that, on August 15,
11:41 10 the way the parties conceptualized it, is the first thing that
11 happened on August 15th would be that you're paying your annual
12 license fee for the following year? The second thing is you
13 would now have due, subsequently due, your first six months
14 royalty, and you could credit those against your annual fee,
15 which would suggest that your idea that they were due as you
16 came is directly contradicted by this word "subsequently due"
17 and then the parties practice.

18 If the parties' practice is to say, we're taking the
19 first six months and we are now saying it's subsequently due
11:41 20 from when that annual license fee is paid, then you would be
21 essentially conceding that those first six months aren't due
22 until after the license. And if that's wrong, then you're
23 absolutely right that you could never get money from that
24 calendar year because you wouldn't be calculating the next
25 month's money until the following calendar year.

1 MR. STEINER: I don't think so, your Honor, because
2 what's happening under the license agreement is that the
3 royalty amounts and the license fees are both being paid 15
4 days -- I'm sorry, 45 days after the end of the reporting
5 period, which is June 30th so, thus, August 15th. And so I
6 don't think conceptually under 4.3 there's this idea that you
7 pay the annual license fee and then a minute later, you know,
8 you pay the royalties. I mean, they're due --

9 THE COURT: What does the word "subsequent" mean?

11:42 10 MR. STEINER: Again, I think, your Honor, that the
11 language in here is -- you know, is problematic. I don't think
12 it's problematic for my argument. I think that what the
13 parties did is they -- as I understand it, and what happened in
14 this particular case, is they took, you know, the three days
15 that were payable, and those were, you know, deducted from the
16 license fee. And that's how they did it, I think, from the
17 beginning of the master license agreement, is that those monies
18 would be taken from the prior reporting period to the extent
19 that anything was due, to the extent that anything was due.

11:43 20 THE COURT: But that's consistent with what the
21 plaintiffs' position here is, which is that none of these
22 amounts are due for 45 days after the end of the reporting
23 period. And that's why the parties used the word "subsequently
24 due."

25 MR. STEINER: But whether or not they're due to be

1 paid, right, whether or not a cause of action accrues because
2 they are -- the monies are due to be paid, it's -- you know,
3 4.5 talks about all -- (e), "All royalty payments due to
4 Hospital under this Section 4.5 shall be due and payable by
5 company within 45 days." So it's parsing out "all royalty
6 payments due to Hospital." That's one portion of it. And then
7 it says under this section, "shall be due and payable to
8 company within 45 days after the end of each reporting period."
9 So there are royalty payments that are due to the hospital that
10 then the obligation to pay those actual amounts happens 45 days
11 after the end of the reporting period.

12 The whole scheme of 4.5 talking about the beginning of
13 the first commercial sale, talking about the idea that, you
14 know, in 4.5(f), that intercompany transfers don't create
15 obligations, the termination provision, all of those provisions
16 I think clearly indicate that the obligation arises upon the
17 commercial sale. And then the payment obligation, you know,
18 the obligation to actually make that payment by a due date, is
19 15 days after -- is 45 days after the reporting period.

11:45 20 THE COURT: I think the place that it seems is
21 different from that is, if you talk about when this whole thing
22 becomes due, if you were right, then it would not have mattered
23 that the contract starts in the middle of a six-month period.
24 You could have said, at the end of that first six-month period,
25 you would have amounts due because you were collecting it. But

1 they didn't do that. The first payment is due, you know,
2 between six and eleven months after the first transaction.

3 There's no way to say, okay -- the contract does not
4 allow, at least as to the royalties -- I'm not sure about the
5 licenses. But as to the royalties, the payments aren't due
6 until you've had a full reporting period of calculating the
7 transactions.

8 MR. STEINER: But, your Honor, that type of language
9 just makes commercial sense. We would not be paying them every
11:46 10 time we got paid by a third party.

11 THE COURT: No, but --

12 MR. STEINER: We would accumulate the royalty
13 obligation, and we would make that payment in a lump sum. The
14 idea that we held onto it for 45 days or for -- from January 1
15 to August 15th --

16 THE COURT: I'm saying you started a contract in
17 October, and yet you didn't have payments due on -- after 45
18 days after December 31. You had payments due for a contract --
19 I believe the contract started -- at least the amendment
11:47 20 started in October, but let's go back to the first contract.
21 The first contract started in April. There was no payments
22 should be due following that first June. It was payments are
23 due that first little initial chunk of the contract, plus a
24 full six months of getting your numbers straight, and then the
25 payment is due 45 days later.

1 I think -- I just think it would be probably a more
2 fruitful conversation here if you would drill down with your
3 client and this contract on these issues that I'm focusing on.
4 And I understand the notion that you're saying, if something is
5 due on a certain set of events happening, the fact that you
6 might have a payment plan later would be irrelevant in light of
7 the language of the settlement agreement. I understand your
8 argument there.

9 My problem here, as I look at -- and I've really been
10 focused on the royalties. I haven't been focused on the
11 license, sublicense, and I need to see if there's a different
12 analysis there. But my analysis here, as I look at the
13 contract, is that, although the parties could have negotiated
14 something that essentially says a royalty is due even though
15 not payable until later, that it is essentially that that
16 transaction is sufficient that you could consider it a ripe
17 matter that has now been released or unripe matter that has now
18 been released. I understand that notion. I'm just in here, as
19 I look at what the parties conceived of as the royalty, it
20 doesn't seem to me that royalty means a percentage of actual
21 consummated sales.

22 MR. STEINER: And I appreciate, your Honor, the
23 opportunity to provide that additional information to you
24 because I do think it's important. I do think, based on your
25 questions, you know, it will be impactful in your ultimate

1 determination.

2 THE COURT: Would it make sense to simply see if we
3 have a little time next week that we could continue this
4 conversation?

5 MR. STEINER: That's fine, your Honor.

6 THE COURT: What's my schedule?

7 So let's just do it a week from today at the same
8 time, at 11.

9 MR. STEINER: I'm sorry, your Honor. Which day?

11:49 10 THE COURT: Wednesday, the 30th.

11 MR. STEINER: Just give me a moment. I just turned my
12 phone off.

13 THE COURT: The number of phones I've had ringing in
14 the last few days, I appreciate your having turned it off.

15 MR. STEINER: That's fine, your Honor. I assume you'd
16 like us to submit something either -- you know, which includes
17 the amendments or some --

18 THE COURT: If there is, in fact, different language
19 you want me to look at, give me the different language, but I
11:50 20 don't need any more briefing. I'll just continue this argument
21 after you've had an opportunity to look at what I'm focused on.

22 MR. STEINER: We'll just submit that additional
23 language to you.

24 MR. NASH: Is that going to be it for today, your
25 Honor, or are we going to talk about some of the other issues

1 that I think are important irrespective of how the royalty is
2 defined in the agreement? It's certainly very important.

3 THE COURT: Well, you're here, and I'm happy to go a
4 little further, but I don't want to -- this seems to me fairly
5 central to the conversation.

6 MR. NASH: And I think I take from what your Honor
7 said earlier that, at least for today, you'd like to stay away
8 from the extrinsic evidence that's in the record or not?

9 THE COURT: I think I do. I think that as this is
10 teed up for me, as I'm looking at it here, I am starting with
11 the premise that the language is unambiguous. And until --
12 unless it's ambiguous, I don't get to that other question. So
13 if I find that it is ambiguous, then I guess the question I
14 need to deal with is: What do I have in front of me? And is
15 it appropriate for me to resolve things based on what I have in
16 front of me?

17 And certainly as to your summary judgment motion, I
18 don't think I can make a decision looking at these things -- I
19 mean, I don't think the record is appropriate for me to make my
11:52 20 decision as to extrinsic evidence based only on what I have
21 here. As I said, you didn't include that as your undisputed
22 facts.

23 MR. NASH: Agreed. On summary judgment, your Honor,
24 the -- we're not relying on the extrinsic evidence to -- that
25 would be where you decide that it's -- the contract

1 unambiguously excludes the royalty.

2 THE COURT: Right. So on a motion to dismiss, I am
3 accepting the allegations in the complaint as true. I don't
4 know -- the letters are attached, which doesn't mean the
5 statements in there are accepted as true. It's these -- this
6 is a true copy of the letter you sent to them. I'm not sure
7 what that -- I haven't dug deep enough into that. I've been
8 trying to resolve this based on the language if I can because I
9 think, if it's not on the language, I think there's two sides
11:53 10 to whatever story of how we got to where we are. I just don't
11 feel I have enough of a record to get there.

12 MR. STEINER: There certainly are two sides to the
13 story, your Honor.

14 I would suggest that, given, you know, this what I
15 think is a fundamental issue as it relates to your Honor's
16 interpretation of the release and the master license, that, you
17 know, we'll be back here on Wednesday unless there are other
18 kind of fundamental issues that you think we need to be
19 prepared to address, that we address those parol evidence
11:53 20 issues, if at all --

21 THE COURT: Let me ask you this question because -- so
22 that I'm prepared for next Wednesday: If I were to find that
23 the contract language is ambiguous and, therefore, I don't
24 think, on an ambiguous record, I would be granting the
25 defendants' partial -- motion for partial summary judgment. If

1 I were to find that, when I am considering your motion to
2 dismiss, wouldn't I similarly, if I have found it ambiguous,
3 find that you can't dismiss their breach of contract claim on a
4 motion to dismiss?

5 MR. STEINER: I think --

6 THE COURT: Wouldn't that --

7 MR. STEINER: I agree, yes, your Honor. I think if
8 you concluded, because it is the -- it is a question of law in
9 the first instance as to whether or not -- I think the standard
11:54 10 is, you know, reasonable people could reach a different
11 conclusion as to the meaning of the language -- then that would
12 create an ambiguity, and you would have to, I guess in that
13 circumstance, deny the motion to dismiss.

14 Our position on the parol evidence is that it doesn't
15 come in because the contract is unambiguous; and so, therefore,
16 you know, because it's a fully integrated document, because
17 everyone had advice of counsel for multiple reasons, that
18 there's no reason to look outside of the four corners of the
19 document.

11:55 20 THE COURT: But so isn't my decision-making tree here
21 as follows: One, is the language unambiguous? If the language
22 is unambiguous, one side or the other wins here on the -- at
23 least the first count, that either it's unambiguous and I agree
24 with the defendant and I grant partial summary judgment, or it
25 is unambiguous an I agree with -- sorry, agree with the

1 plaintiff and I grant partial summary judgment, or I agree with
2 the defendant and I grant the motion to dismiss if it's
3 unambiguous? If I instead find it's ambiguous, don't I deny
4 both motions?

5 MR. NASH: I think the answer to the second question
6 is yes; if you find it ambiguous, you deny both motions. If
7 you find it unambiguous and -- then there's still the issue of
8 the other claims.

9 THE COURT: Yeah. That's sort of focusing on Count 1.

11:56 10 MR. NASH: Breach of contract only -- my apologies.
11 Breach of contract only.

12 THE COURT: That's right.

13 MR. NASH: If I could just be heard just for a moment,
14 your Honor, on this issue of unambiguous versus ambiguous and
15 extrinsic evidence. I'm not going to get into the extrinsic
16 evidence. But Massachusetts law -- and this comes up in a case
17 that they cited in their brief, the Bank v. IBM case.
18 Massachusetts law allows a court, in its role as the decider of
19 the law, to consider extrinsic evidence for the purpose of
11:56 20 determining whether or not the agreement is ambiguous in the
21 first place because there's a difference between your role as
22 the decider of law and the trier of fact's role as deciding
23 what the facts are. And the Parol Evidence Rule precludes the
24 trier of fact from hearing extrinsic evidence if the contract
25 is deemed unambiguous as a matter of law.

1 In making that legal determination -- and this is in
2 the Bank case that they cite, it's also -- there's also a First
3 Circuit case, Donoghue v. IBC, which is reported at 70 F.3d
4 206. I do have a copy of it, your Honor, if it would be of
5 assistance to hand it up.

6 THE COURT: Certainly. 70 F.3d 206. And the other
7 one you're relying on is in the defendants' briefing?

8 MR. NASH: Yes, your Honor. It's their opposition
9 brief. It's -- they cite it for a different purpose, but they
11:57 10 cite it for the sua sponte summary judgment. It's Bank v. IBM.
11 And that case talks about the case I just handed up, which is
12 the Donoghue case.

13 And Donoghue stands very clearly for the proposition
14 that your Honor, as the decider of what the law is -- and in
15 this case whether the contract is ambiguous or not -- can take
16 a what the courts have referred to as a peek at the extrinsic
17 evidence for the sole purpose of understanding what the
18 objective intent of the parties was based on the circumstances
19 of the agreement.

11:58 20 THE COURT: Okay. Let me ask you the question this
21 way: First of all, are those cases summary judgment or motions
22 to dismiss?

23 MR. NASH: The Donoghue case was an appeal of a grant
24 of a preliminary injunction, and the Bank case was a summary
25 judgment case in which the court granted the mirror image of

1 the summary judgment motion that was actually filed sua sponte.
2 I wouldn't encourage that in this case, your Honor.

3 THE COURT: Okay. So, again, just thinking through my
4 posture -- the posture of the motions that are in front of me,
5 on either motion, or on both motions, you're suggesting that I
6 should look at the letters that you have attached to the
7 complaint?

8 MR. NASH: So what I'm saying, your Honor, is that
9 your role in deciding whether the contract is ambiguous or not
11:59 10 is ultimately an exercise to determine what was the objective
11 intent of the parties. The first place you should start,
12 absolutely first place you should start, is the four corners of
13 the settlement agreement. And when you look at the settlement
14 agreement, you'll see there's nine "whereas" clauses. Not a
15 one of them mentions any royalty payment by the defendants.

16 THE COURT: The release itself refers to rights under
17 the license agreement.

18 MR. NASH: It does.

19 THE COURT: It's a separate subclause of the release
12:00 20 language.

21 MR. NASH: But you have to ultimately determine what
22 was the objective intent of the parties in adopting that
23 language.

24 MR. STEINER: Your Honor.

25 THE COURT: I think that gets further down than I

1 think my understanding of the four corners of a contract is. I
2 understand the people explain "whereas," not to give everything
3 that's intended to be covered by the agreement, but it talks
4 somewhat about how -- what brings us here and how we're here.
5 Okay, fine. The operative terms of the contract then go
6 through, and if they are unambiguous, I don't think the fact
7 that they reached something that's not listed in a "whereas"
8 clause would somehow make it ambiguous.

9 MR. STEINER: Your Honor, there are cases that go to
12:01 10 that issue even in the context of their mutual mistake argument
11 or unilateral mistake. I think the Eck v. Godbout case, you
12 know, talks about this issue. And really what plaintiff
13 proposes would require parol evidence in every case where
14 there's a dispute as to what the parties' rights are under a
15 contract, and that's not the law. In the Eck case, your Honor,
16 the Court says, "The mere fact that a release, as worded,
17 extends to matters that the parties did not specifically have
18 in mind at the time of execution does not operate to exclude
19 these matters from the scope of the release. That they do not
12:01 20 have those matters in mind at the time and are thus in some
21 sense surprised when the release is later applied to exclude
22 such claims does not make the execution of the broadly worded
23 release a mistake."

24 The argument that plaintiff -- that plaintiffs'
25 counsel makes, I think well overstates the Parol Evidence Rule.

1 And we do cite the Bank v. IBM case, and what that court said
2 was, "To the extent Massachusetts permits the limited use of
3 extrinsic evidence in order to shed light on the circumstances
4 of the contract's execution, no such evidence would be helpful
5 in resolving whether the contract terms in this case are
6 ambiguous, rather allowing such evidence would simply frustrate
7 the policy of the Parol Evidence Rule."

8 So if you read the contract and the contract is
9 unambiguous, you don't go searching through the contentions of
10 the parties, and in this particular case, settlement
11 discussions, and say, well, wait a second. Because they've
12 come forward and they've said we don't agree with how this
13 release is being applied to us, now there's a dispute and now
14 you have to look at parol evidence and create some ambiguity in
15 an agreement, your Honor, that is entirely unambiguous. It has
16 specific reference to a release of everything under the master
17 license as of the effective date.

18 THE COURT: The ambiguity -- I agree that this is a
19 broad release term, but I do think I need to figure out whether
12:03 20 the language of the -- I need to figure out when something
21 arises, and that's why I turn to the license agreement. And I
22 need to figure that out, and I need to figure out if that's
23 clear. I will read those cases and determine how much I should
24 or shouldn't be thinking about extrinsic evidence.

25 I do want to just sort of stop on one use of words you

1 were just bringing in there, which is focusing that this is
2 "settlement discussions." I'm asked to interpret a contract.
3 The contract that I'm asked to interpret happens to be a
4 settlement agreement. Once I'm forced to have to do that, if
5 the language is -- if I do find it is ambiguous, the fact that
6 the conversations that were involved in negotiating this
7 agreement were "settlement discussions," I don't think keeps me
8 from looking at it, does it?

9 MR. STEINER: I think --

12:04 10 THE COURT: Isn't the prohibition about settlement
11 conversations is bringing settlement conversations into things
12 that aren't the interpretation of the settlement agreement.

13 MR. STEINER: I think the broader issue here, your
14 Honor, is that what the plaintiff has done is taken a single
15 email, prior to any document being drafted, prior to -- people
16 weren't parsing language in agreement and saying, This is what
17 I think this means; this is what I think that means; Are we
18 covered here? They've taken a settlement communication six
19 weeks before the parties ever had put pen to paper, before the
12:05 20 parties met in person --

21 THE COURT: Okay. So if I reach extrinsic evidence, I
22 think there was a question of what extrinsic evidence I would
23 look at and how much and how far back. But the notion that it
24 is settlement isn't a magic word. I mean, it's sort of like,
25 if you were fighting about keeping attorney/client

1 communications confidential when the fight is about a fee
2 dispute with your client, at some point when you're fighting
3 about the underlying things you get to figure out what you were
4 talking about with each other.

5 If what you're saying is we had settlement
6 conversations that were not part of negotiating a settlement
7 agreement, if they're part of the conversations of the contract
8 that is in dispute in front of me, I think I get to it. If
9 it's not part of that, then I don't get to it and -- assuming
10 it's ambiguous.

11 MR. STEINER: Exactly. I think that's obviously the
12 first step. I don't think we get there because I think that,
13 you know, hopefully, with the supplemental submission and the
14 discussion on Wednesday, your Honor will conclude that the
15 agreement is unambiguous and that the broad language of the
16 release, which includes obligations, liabilities, debts,
17 everything related to the master license as of the effective
18 date, bars the plaintiffs' claim.

19 MR. NASH: On your 408 question, your Honor, the
20 committee notes to the 2006 amendments addresses your Honor's
21 question directly. It actually cites a -- in addition to a
22 First Circuit case, it cites a Fourth Circuit case that says
23 evidence -- it stands for the proposition that evidence of
24 settlement is not precluded by Rule 408 when offered to prove a
25 party's intent with respect to the scope of a release. It's

1 something -- that's not precluded. The rule precludes
2 something else, which is evidence having to do with the
3 validity of the underlying claim or the amount.

4 THE COURT: So I think we -- there's a fair bit here
5 that we'll pick up with next week. If there is different
6 contract language than what I've been focused on, I will take a
7 look at it.

8 If you could follow the same procedure that you did
9 before, which is, if you are concerned that things should not
12:07 10 be in the public domain, divvy up what needs to be redacted,
11 and I don't need to see it all, versus if there's something
12 that needs to be filed under seal.

13 MR. STEINER: Of course. Thank you, your Honor.

14 MR. NASH: Your Honor, may I just take a moment and
15 thank the Court for the last time we were supposed to be here
16 and having to cancel due to my medical issues? I'm grateful
17 for the Court's indulgence there, and I can assure you I would
18 have rather have been here than where I ended up.

19 THE COURT: Okay. Well, I'm glad everybody made it
12:08 20 back here, and I'll see you next week.

21 ALL: Thank you.

22 THE CLERK: Court is in recess. All rise.

23 (Whereupon, at 12:08 p.m. the hearing concluded.)
24
25

C E R T I F I C A T E

I certify that the foregoing is a correct transcript
of the record of proceedings in the above-entitled matter to
the best of my skill and ability.

/s/Cheryl Dahlstrom

Cheryl Dahlstrom, RMR, CRR

Official Court Reporter

Dated: January 25, 2019